RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

SINCE 1958 •

POST OFFICE BOX 1759, LA JOLLA, CALIFORNIA 92038
26 LETTERS PER YEAR • $225 ANNUALLY

LETTER 953 **Dec. 3, 1986**

Nov. 21 DJIA 1893.56; PTI 2458; A-D Ratio -6.54
Nov. 28 DJIA 1914.23; PTI 2470; A-D Ratio -6.35

THE PICTURE: The Ivan Boesky hysteria is dying down, and as usual, Wall Street is soothing its ruffled feathers with acerbic observations and insider jokes. The prime observation is that Boesky's last act was to sell almost half a billion dollars worth of stock based on inside knowledge of his own fate (an act which riled other arbs no end). The joke currently being circulated is that Boesky is putting up only $3 million of his own money toward his $50 million fine -- the rest he's going to finance with junk bonds.

My own opinion of the whole affair is that Wall Street and the country would be far better off if they'd never heard of Boesky, Icahn, Perelman, Pickens, Milken, and the whole Drexel Burnham Lambert junk bond operation. As far as I can see, the entire takeover phenomenon simply adds a dangerous amount of new debt to US corporations that already are carrying too much debt. The takeovers, in general, have contributed absolutely nothing of value in the way of production or sales to any corporation. The raiders have simply screwed up balance sheets and fattened their purses at the expense of their various victims. But enough of this: let's turn our attention to the market.

In Letter 951 and again in Letter 952 I noted that the weekly advance-decline ratio had been pushing higher for eight consecutive weeks (that extraordinary string ended on the week of November 7). In the last Letter (952) I wrote, "Now obviously there is no absolute formula to measure how long is too long, but I know from experience that when the weekly A-D has closed higher for eight consecutive weeks, the market is usually ready either to consolidate or correct."

On Monday (Nov. 17) and more decisively on Tuesday (Nov. 18) the full brunt of the Ivan Boesky affair hit the headlines. The result was a big smash on November 18 as the Dow dropped 43 points during that single session. Many traders stated that it was one of the most emotional market days they had ever seen. Sell orders swamped an already over-bought market, and fear enveloped the investment world.

But to the surprise of many bears, the Dow low of 1817.21 recorded on November 18 proved to be the low day for the Boesky panic. On November 19 the market turned up, and by November 24 the Dow was over the 1900 level again. The pessimists were confounded and confused. A few had publicly stated that the Boesky mess had ended the bull market. "What was the meaning of the market's resilience?"

I've said this many times before, but I'll say it again. Primary bull markets don't end with Wall Street scandals or Congressional edicts. They don't end with international crises or warnings from the Fed. No, primary bull markets end only one way -- IN EXHAUSTION. Bull markets end when the last greedy bull spends his last dollar, and there are simply no more dollars to fuel the bull market.

As far as I'm concerned, we aren't there yet. This bull market is not dealing with yesterday's tedious news or today's rather dismal news. It is, in fact, marching to a different drum, and that drum is saying that better times are coming. Maybe not tomorrow or next week but probably within six months to a year. "Why as far off as six months to a year?" you ask. Because in my experience, that's how far the stock market is capable of discounting ahead.

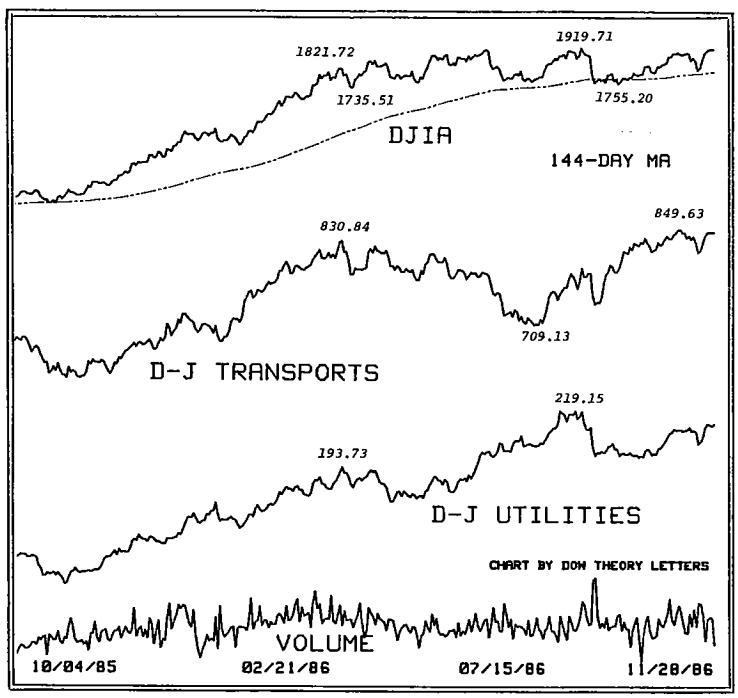
COMMENTS: There are two downside levels in the Dow that are worthy of note. The first is the September 29 low of 1755.20. That was the low created after programmed selling hit the market with a panicky violence that astounded and terrified Wall Streeters. The second low of importance was the November 18 low of 1817.21. This was the panic low created as the Ivan Boesky scandal exploded over Wall Street.

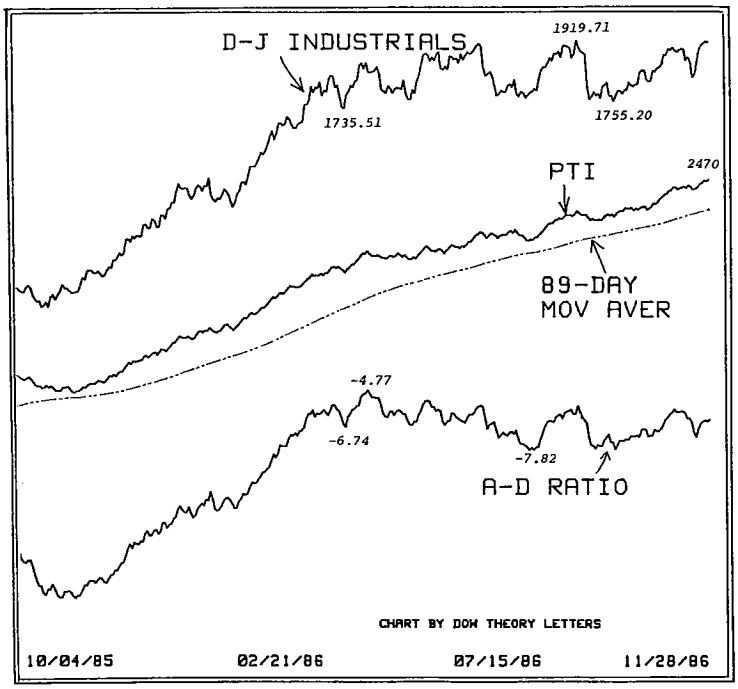
I consider panic lows to be extremely important, since they are always EMOTIONAL lows brought on by fearful and usually UNINFORMED selling. My guess is that we will not see either of these Dow lows broken for quite a while.

In the last Letter I commented on the McClellan Oscillator and the fact it was signaling that the bulk of the NYSE issues (as measured by the advance–decline line) were in a corrective mode. As of this writing, the corrective forces are waning, but the market action is still ragged. Breadth (as almost every analyst has noticed) is lagging behind the Dow. But there are pluses in the picture, and they are as follows: On November 25 the sensitive D-J 65 Stock Average hit a record high of 754.26, as did my PTI at 2468 (see page 2 chart). On the same day the D-J 20 Bond Average hit a six-year high of 92.71.

Dow Theory students are now awaiting a reconfirmation of the primary bull trend. The critical points are the Dow bull market high of 1919.71 and the D-J Transport high of 849.63. A joint breaking of those two highs would reconfirm the bull market and that, of course, would have very positive implications for the whole stock market picture.

The NYSE short interest for the month ending November 14 jumped 32 million shares to a record total of 469.1 million shares





sold short. This was the third consecutive month of record short interest totals. The short interest ratio is the monthly short interest divided by the average Exchange volume for the same period. The short interest RATIO for the month ending November 14 was 3.38 -- a modern record. What do these staggering short interest figures mean?

My answer: here we have a primary bull market. The bull market has been in a consolidation phase since the end of March or for a period of eight months. During that time Wall Street has had to absorb an almost unending parade of unpleasant, poor or just plain rotten news. Deficits, feeble corporate earnings, a dubious and confusing new tax bill, computer programmed buying and selling, wildly volatile markets, scandals, political ineptitude, a craven Congress, a president caught red-handed in acts of international stupidity, and on and on.

During this time I pounded continually on a single thesis: despite all the bad news, THIS IS STILL A BULL MARKET. I directed subscribers' attentions to the bear points. In order to get a bear signal (and this still holds), the D-J Industrials would have to violate the 1755.20 level confirmed with a Transportation Average violation of the 709.13 level. Despite all the discouraging news, despite all the dire predictions of the bears — no bear signal has ever appeared!

Just as significantly, during the whole period since March the bears have been active; they 've been putting their money where their mouths are -- via short sales (and yes, I am taking the arbs into account). Now there is nothing more bullish than rising skepticism within a primary bull market. What this skepticism amounts to is a DISBELIEF in the bull market. It's disbelief to the point where the pessimists are willing to BET against the primary trend (via short sales).

In due time, this disbelief is going to be translated into losses for the bears. I have written repeatedly that the single most important piece of information that the investor can possess is a knowledge of the DIRECTION of the primary trend of the market. What we are seeing here is millions of shares aligned on the wrong side of the market. In due time, as and when the bull absorbs all of the bad news, the market is going to push up again. At that time the rise will be stimulated not only by the buying of the bulls -- but it will be fueled by the covering (buying) of a record number of frightened bears.

The longer this bull market is held back, the greater and more spectacular will be the leg leading up and out of this area (i.e., the area below Dow 2,000). Furthermore (and subscribers should note this carefully), on any day when Exchange volume drops, on that day the short interest ratio will be pushed higher into even more bullish territory.

For instance, with a current NYSE short interest of 469 million shares sold short, let's say we get a day on which volume drops to 110 million shares. On that day the short interest ratio will climb to 4.26 (469 divided by 110). So watch for low volume days, particularly low volume days in which the market backs off reluctantly. Those days are days of "building power" for the bulls.

As I see it, the power of this still-leashed bull is increasing week after week and month after month. When the breakout to the upside finally arrives (the signal will be a Dow over 1919.71 and a Transport Average over 849.63), the result should be worth waiting for. Thus it behooves all of my subscribers to sit with their high-grade, dividend-paying stocks, buying more on reactions and dips. We, as holders of stocks, are on the RIGHT SIDE of the primary trend. We have the strongest force in the market working for us -- the force of the bull. Patience and knowledge is the key here. In due time, the bull market will fully express itself.

INVESTMENT POSITION: The bull is in the box. Now I know this is mean, but I have to laugh when I read some of the advisory reports coming in over the last few weeks. "Cover shorts and go 100% long." "Move back into the market." "Buy if the Dow goes to new highs," and on and on. Mass confusion, endless excuses, but no apologies. The fact is that very few advisers know or understand how to operate in a great bull market (or a bear market, for that matter). And as of now, I'd say that this bull has made fools of probably 80% of the "experts."

I handle eight accounts for myself, my business, and my children. The accounts have for many years been in high-grade blue chip stocks or high-grade bonds. Last week all the accounts were at or very near five-year highs. There's no magic involved. What I've been doing in this bull market is simply HOLDING stocks and bonds while taking on additional commitments during reactions (which is exactly what I've advised my subscribers to do). No cleaning out, no trading, no "100% long one month and then 100% short the next month." Frankly, I can't imagine how any person could have kept his sanity or made money following the advice of the in-and-outers during 1986, particularly since 1986 was such a terrific whipsaw year.

As I've said before, during a bull market the bull wants to climb higher while carrying the FEWEST number of stockholders on his back. So far, this bull has been doing one hell of a job!

Many of the bearish advisories are trying to justify their positions by screaming, "Look how terribly the secondary and OTC stocks are doing." But I never told anyone to buy junk stocks (they'll do fine toward the END of this bull market). My subscribers are in the high-grade stocks, and those stocks have been doing well. By the way, stocks I like here are Southern Co., Sierra Pacific Resources, Dominion Resources, Alltel Corp., NYNEX, (all NYSE utilities), Bordens, Hillenbrand, Royal Dutch, Exxon. Dow stocks that look strong and that I like (many of these have been recommended repeatedly) are Amer. Can, duPont, Kodak, Exxon, Int. Paper, Merck, MMM, Owens-Illinois, Philip Morris, Westinghouse, Woolworth.

ELLIOTT'S WAVES: I used to write quite extensively about the Elliott Wave Principle and its application to the markets. I was introduced to Elliott through Hamilton Bolton, the brilliant first editor of the Bank Credit Analyst. That was back in the early '60s. In those days Ham Bolton (who also did pioneering work in bank credit) would tie his bank credit studies in with his studies of the Elliott Waves -- all in an effort to forecast the direction of the stock market and of business.

From the very beginning I found Bolton's work to be fascinating, and in time I became a student of the Wave Principle. I was helped, of course, by a continuing correspondence with Bolton. Sadly, Bolton died (I believe it was in the late '60s). Following Bolton's death his successors at the Bank Credit Analyst gradually phased out the Elliott portion of their report.

However, there was another outstanding student of Elliott, a Canadian tax judge named A.J. Frost. After Ham Bolton died, I started corresponding and comparing notes with Frost. Finally Frost and I got together (I think it was during the early-1970s). Frost suggested that I collaborate with him in writing a book about Elliott and the Wave Theory. I told Frost that I just didn't have the time or the energy to write a book with him. However, I said that there was a young man whom I had corresponded with who was intensely interested in Elliott and who seemed expert in interpreting the Wave Principle. I suggested that Frost get in touch with him. The fellow I was referring to was Robert Prechter, formerly an analyst with Merrill, Lynch.

I have the book, "Elliot Wave Princple" by Frost and Prechter in front of me, and I see that Bob kindly noted in the inscription that I was the one who originally introduced him to the Elliott Wave Principle. At any rate, Prechter has done a terrific job with Elliott, and he has been publishing his Elliott Wave Theorist service for a number of years. Prechter's Elliott studies are widely followed, and his publication is now one of the most successful in the field -- as it well deserves to be (Elliott Wave Theorist, PO Box 1618, Gainesville, GA 30503).

Since I used to write about Elliott, I still receive many letters asking whether I still believe in Elliott's precepts, and if so, what is the Wave Principle saying now? The answer to the first is that I think there is much validity in Elliott. My reservation about the Wave Principle is that it is difficult to draw definitive conclusions from it. There are often alternative solutions to Elliott problems or often conflicting ways of interpreting the waves (of course, this can be said of most of the technical studies of the market). Another objection is that wave interpret ations are always clear in retrospect, but seldom clear ahead of time (again, this can be said of many other market studies).

Objections aside, I follow Bob Prechter's reports with great interest, and I would say that if anyone has a handle on the Wave Principle, it is Prechter. He is a fine student of Elliott, and Bob backs his wave analyses with confirming Fibonacci studies plus all kinds of dove–tailing technical comments. Little that is happening in the market seems to escape Prechter's eagle eyes.

So in answer to the question "where are we now as far as Elliott is concerned?", I am taking the liberty of reproducing one of the charts from Prechter's latest report (dated Nov. 7). Here we see the crash of 1929-32, and the great and complex bull market that grew out of the ashes of that crash at the 1932 lows.

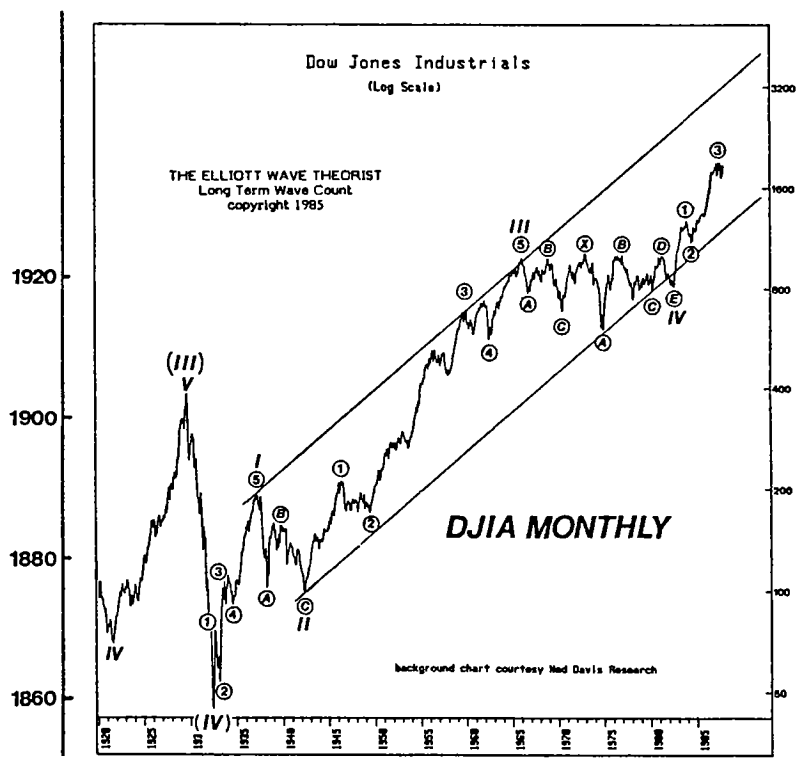
One of the precepts of Elliott is that bull markets trace out a pattern that can be divided into five major waves: three advancing waves with two intervening corrective waves. Within these five major waves are any number of smaller sub-division waves. But let's stick to the major waves at this time.

Note on the chart that the first bull market wave ran from the 1932 low of 41 on the Dow to the 1937 high of 194. Corrective wave II then took the Dow down to the 1942 low of 92. Next, giant advancing wave III advanced the Dow to its 1966 Dow peak of 995.

From the 1966 high, an extended and fantastically complicated CORRECTIVE wave (Wave IV) ended in 1982 at a Dow low of 776. All the action since the 1982 low has been part of final Elliott Wave V. As you can see on the chart, Prechter believes that we have already seen rising sub-wave 1 and corrective sub-wave 2 and rising sub-wave 3 of the final major (rising) Wave V.

Prechter believes that corrective sub-wave IV is now in progress, and he further believes that this wave should terminate sometime in early 1987, probably in an area above 1760. Prechter does not discount a possible new Dow high (above 1919) before the expected final decline which will end major corrective Wave 1V. After that, Prechter thinks we will see the final unwinding of advancing Wave V, a rise that should take the Dow to the top of the channel -- to an area of around Dow 3,600. He believes Wave V could be over before the year 1990, and he further believes that a crushing bear market will follow, once Wave V of the super-bull market is concluded.

I fully agree with Prechter's interpretation of Elliott. My main reservation is whether Elliott is going to work, and if it does, whether there won't be complications, variations or interpretations which will be confusing to the point of madness.



At any rate, I feel it is well worth noting what Prechter and his Elliott Wave studies forecast as far as the stock market is concerned. So here it is in one sentence: The Wave Principle sees the market now in a corrective phase, preparatory to a final major rise into the stratosphere -- with a theoretical target high of around 3,600 for the Dow.

RUSSELL'S RANTINGS: I sometimes ask myself whether it's wise or even right to indulge myself in these Letters with such exotic topics as responsibility, truth, observations about NYC or jazz in the 1940s. But I guess it's OK, because (amazingly) I get more letters and comments about these items than I do about my market studies.

And then I figure this way: I've been writing these reports (without ever missing a single issue) for the last 28 years. Over those 28 years I've had a lot of thoughts about a lot of things and not all of them have to do with the stock market. I also have to consider my subscribers, many of whom have been reading these Letters for 10 or 20 years and some even back to 1958 when I started. They would probably get bored with a diet of strict market talk. But here's the crux of it: if I can't express myself with some of my non-stock market ideas then I get bored. After all, life is more than just making money. Man cannot live by bread alone.

So many years ago (to the horror of many of my friends in this business) I started including personal notes and observations in Dow Theory Letters. And as you well know, I still do it. And now if anyone objects, I just tell them to skip the personal parts completely, and just concentrate on the market comments.

Here are some random thoughts that I've wanted to get on paper: When I was a kid during the 1930s I was scared by the Great Depression. I picked up my own father's fears, his talk about friends who had lost their jobs, his comments about how prices had collapsed. As a boy I was shocked and frightened by the ragged down-and-outers that I saw in NYC, the apple-sellers on the street corners, the makeshift tin-can shacks in Central Park, the long breadlines of hollow-eyed men. All that frightened me. It made me wonder whether I might end up the same way, or whether I was going to survive the Great Depression.

I think what originally interested me about the stock market was that it seemed to offer the best way to look ahead -- to glimpse the future. You see, if the 1930s were going to happen again, I wanted to know about it. I most definitely didn't want to get caught in another disaster. The years went by, and I found that the hardest thing for me to do was to become "stabilized" in an economic sense, to become economically neutral and cease concentrating on another disaster.

I think I accomplished that some years ago. Today, I believe I can be bullish as easily as I can be bearish. It took a long time to get there, but I guess around the end of the 1960s I finally got over my fear of "another depression." Now I reason, if a depression comes, let it come. I survived a mastoidectomy in 1932 before there were any antibiotics, I survived combat in World War II, I survived a high-speed motorcycle crash, I survived a heart attack, I survived having an autistic child, I survived open-heart surgery, I survived two divorces, and I'll survive a depression if there is one. Yeah, I've finally concluded that I'm a survivor -- and I feel pretty good about it.

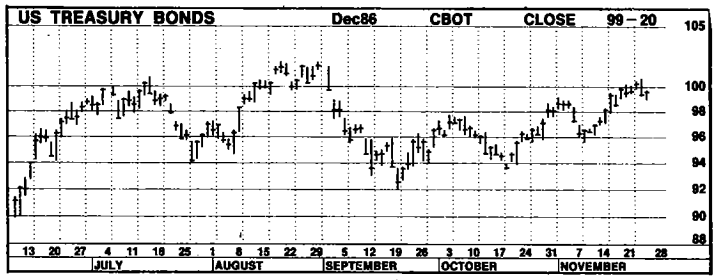
Next topic: one of my obsessions is reading. I don't know what I would have done without my fascination with the written word. The truth is that I grew up thinking that nothing made sense -- that the world just "didn't work." World War II only intensified that empty feeling. But as the years went by I came to believe that the world indeed could make sense. But, I reasoned, it was up to you and me to make things work. I've held to that concept over the years.

Einstein once stated that only two things are infinite -- space and human stupidity. I'm convinced that Einstein was correct. The reason so many things in this world don't work is almost entirely due to human prejudice, ignorance, and stupidity. The depth of human stupidity apparently knows no bounds.

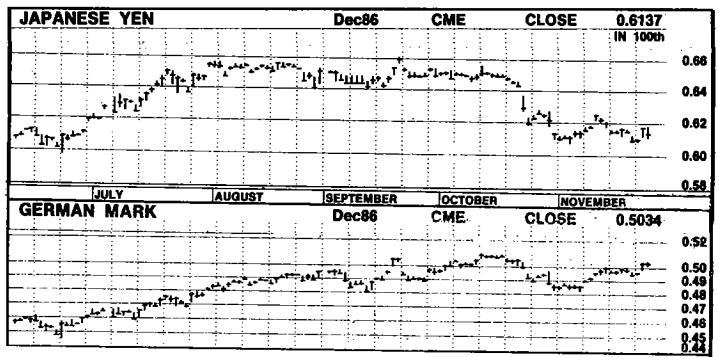
As a result of this brand of thinking, I have become fascinated with and appreciative of anyone who can DO SOMETHING EXPERTLY. I don't care if it's a mechanic who can put together a car, a physician who has a real gift for medicine, a politician who insists on the truth, a stock market analyst who can make sense out of what he sees, or an artist who has a genius for putting paint on canvas. I love people who are excellent at their chosen professions, and, by the way, I find that these same people are invariably very interesting people.

I'm reasonably convinced that civilization is slowly and tortuously moving toward a world that WORKS. It will be a world without poverty, a world without fatherless children, a world without criminals, a world without fools, a world without lawsuits and hunger and insanity and prejudices. "Great, fabulous, when will all this happen?" you ask. Patience. If all history was a yardstick, the history of modern man (modern in the sense that he can record his story through words or pictures) wouldn't take up one thirty-second of an inch. So what's our hurry? Human endeavor since 1900 represents just a speck of progress somewhere on the yardstick of history.

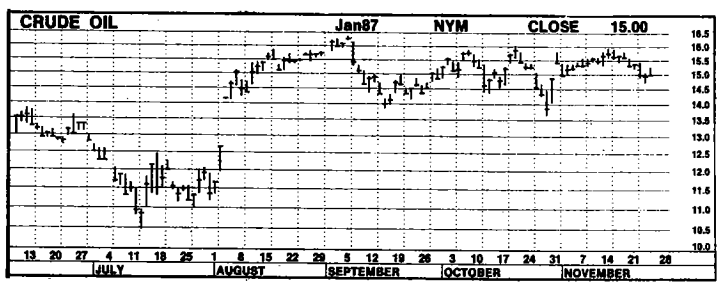
CHARTS: The bonds have had a good, profitable run since September. I've stated all along that I felt the bonds were in a trading range, and I still hold to that view. Here we see the December T-bond contract. From the September low of 92 the T-bonds have pushed up to just over 100. Now they're faltering a bit, and I'm frankly skeptical about the bonds bettering the August high of 104. If they do, great, I've got plenty of munis that will move right along with the T-bonds. If the bonds sink back into the trading range, fine; I'll sit and collect the tax-free interest.



A lot of Japanese companies (believe it or not) are having a hard time now as the dollar's long and severe decline has made Japanese goods less competitive (particularly with Korean and Hong Kong goods). The dollar has been very weak against the yen for months on end, but since September the yen has turned weak against the dollar (the 3% Japanese discount rate has had a lot to do with the recently-weak yen). The German mark remains a lot stronger than the yen against the dollar, but even here we could be seeing a topping of the mark against the dollar.



Crude oil (Jan. contract) has been trying mightily to get above the important 16 dollar level. So far, no luck. I think 13.50 on the downside is going to hold for crude, and I think we'll see more tries at the 16 level. In the meantime, it's a trading range for crude, and it's a trading range that hardly helps US oil producers (nevertheless, Exxon and Royal Dutch are thriving).



NOTES & QUOTES: The Dow may be selling at 15 times earnings, but art in New York is selling up into the wild blue yonder. At the big Sotheby auction a few weeks ago a 5x8-inch da Vinci sketch sold for a record $3.6 million. A Jasper Johns (he's still living) painting sold for an incredible $3.6 million. A Picasso brought $1.65 million via a telephone bidder. A few days later a Mondrian sold for an absolutely unbelievable $5.1 million: the Mondrian was one of 67 paintings which sold for a record total of $42.4 milion. A Renoir sold for $3.5 million, a Henry Moore sculpture for $1.7 million and a Lipchitz sculpture for $1.1 million -- all records for their respective artists!

What's behind these towering prices? (1) Big money such as the billions of dollars in the kitty of the Getty Museum, (2) an

expanding interest in art by wealthy international collectors, (3) the seemingly ever-increasing auction prices for choice pieces by those artists who have a secure place in art history, (4) a tremendous increase in art interest on the part of the public. Example of #4: Back in the 1940s I would visit the Museum of Modern Art in NYC and there would likely be 15 or 20 people in the entire museum. Today the Museum is so crowded you usually have to stand in line to buy tickets just to get into the place.

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I love San Diego and Southern California, but here are a number of items to consider before moving here. (1) State taxes are high in California. (2) Water is going to be a problem here in Southern California. San Diego is at the end of the line as far as water is concerned, and if we have another drought such as one we had in 1977-78 there is going to be a critical water shortage. (3) Scientists know from studies (tree circles, etc.) that there is a BIG earthquake in Southern California about every 200 years. We are overdue for the big one now. If an earthquake hits, it's almost surely going to hit along the San Andreas Fault. If that happens it will cut ALL the water supply pipes coming into San Diego. (4) Finally, San Diego is too close to Mexico. Ponder this: in 1950 the population of S. America was 165 million, 1 million less than the combined populations of the US and Canada. In 1985 the Latin American population was 405 million, more than one and one half times the population of the US and Canada! By the year 2025 it is believed that the Latin population will be TWICE that of the US and Canada. The Mexican population will be part of that explosion. Mexico is about 30 miles south of San Diego. The boom in population along the US's 2,000-mile southern border has me thinking — and worrying.

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Remember the "Moonies and the Reverend Sun Moon?" Well, you may not be a Moonie fan, but they put out an excellent weekly current events magazine. And what's even more surprising, it's FREE. The magazine is "Insight" and the address is 3600 New York Ave. N.E., Washington DC. 20002. Write for it. It's excellent reading and well researched. The writing has no connection with the Moonies.

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Warren Buffet, chairman of Berkshire Hathaway, is an old-fashioned financial genius. He avoids bankers and lawyers and believes in personal dealings. He recently stated, "I wrote the CEO of Scott Fetzer, whom I'd never met, last year and said if he were ever interested in selling to call me. He did, we met in Chicago for dinner and I signed in a week -- for $320 million."

Buffet placed an ad in the Nov. 17 WSJ saying that he is looking for nice, big dull companies. "We use no staff, and we don't need to discuss your company with consultants, investment bankers or commercial bankers. You only deal with Charles Munger of Berkshire and me." Buffet got only one reply that interested him. Buffet's test: A company must earn at least $10 million and have little or no debt. Also, managers have to stay put and Buffet has to be able to understand the business. Said Buffet, "If I looked at a genetics company fifty times, I still wouldn't know what it did."

But Buffet knows what he's doing. His Berkshire Hathaway stock had a book value of $19 in 1965; book value today is $1,987!

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Gad, they bought the Tiffany building. Is nothing sacred? First, Boesky, then the Iran arms scandal, now I find the Japanese have bought the Tiffany building. If I hear the Koreans are bidding on the Washington Monument, I'm really going to get mad!

> **DALLAS – Pacific Realty Corp., a closely held real estate concern, said it sold the Tiffany & Co. building in New York City to Dai-Ichi Real Estate Co., Tokyo, for more than $94 million.**
>
> **It said it believes the sale represents the highest price per square foot ever paid for any commercial building. Pacific said the building is about 98,000 square feet, which would mean Dai-Ichi is paying about $959 a square foot.**

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Why all the investor interest in the airlines? The answer is that the airline industry's future looks better than it has in years. Consider this: assuming pending mergers go through, five airlines (Texas Air, United, American, Delta, Northwest) will control 70% of the entire airline market in the US.

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Billionaire Ross Perot, chairman of Electronic Data System and a board member of GM, has never been one to mince words. Here's what he said recently about US management: "The general attitude is whatever they teach you in Harvard Business School is the one true path. Here's what they teach in Harvard Business School: mergers, acquisitions, manipulations, leveraged buyouts. That has nothing to do with creating jobs. Go to Wall Street and make $500,000 a year just pushing numbers around. We need our best and brightest to go down on the factory floor and get dirty and find out how to make their products, how to serve the customers, how to beat the Japanese. ... I'm always in favor of moving faster. I don't think time is your friend in the kinds of markets we're in now. I'm a strong proponent of revolutionary change, not evolutionary change."

* *

The gravy train is over for the US's three major TV networks -- ABC, CBS, and NBC. That's why almost every time you pick up the paper you read about more new layoffs at the networks. In 1980 the three networks attracted 90% of the nation's audience. That percentage has now dropped to 76%. Result: advertising rates are going to get squeezed. Interesting point: the NFL lives off its enormous TV income. The next NFL negotiations with the networks come up in '87. Watch for the fireworks, particularly in view of the many fat NFL salaries.

It isn't only the NFL that has salary problems. In baseball, George Steinbrenner is complaining that his team was No. 5 but his payroll was the highest in baseball at $15.8 million. Boston had a payroll of $14.7 million, the Mets' payroll was $11.6 million, and California's was $11.7 million. Baseball is proving to be an expensive hobby for the owners.

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Look for the 'Made in the USA' label...

BY MARGULIES FOR THE HOUSTON POST

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Forget all your preconceived notions about cities. Here's the straight dope from "The Book of American City Rankings": Largest US city: Anchorage, Alaska at an amazing 1,995 square miles. Most crowded: NYC with 23,282 people per square mile. Windiest city: Corpus Christi with average wind speed of 12.7 MPH. Wettest city: Mobile with 66.98 inches of rain per year. Stormiest: Biloxi-Gulfport with stormy weather 94 days per year. Coldest: Anchorage with below-zero temperature 36 days a year. Snowiest: Syracuse with a maximum monthly snowfall of 72.6 inches. Muggiest: Jacksonville with an average relative humidity of 73%.

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Want to start a new business? Try raising water buffalo. Water buffs produce meat that contains half the fat and far less (often 50% less) cholesterol than beef -- and buff meat is just as tender. Also, buff milk has twice as much fat and 50% more protein than cow's milk. Finally, the buffs have a much more efficient digestive system than cattle, and buffs grow fat and sleek on scrubby range and swampland. Buff herds are being raised and studied at the agricultural school, University of Florida.

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At the Las Vegas computer show visitors and exhibitors got a great shock: Great Wall Industries (of Peking, China) was displaying its new "great Wall 0530," a personal computer clone of IBM's PC/AT model. Price for the Great Wall was $686 vs. IBM's $2,895.

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Oh oh!: My friend, Howard Ruff, originally published "Ruff Times" newsletter and made quite a name for himself. Then a few years ago Howard changed the name of his publication to "Howard Ruff's Financial Success Report." But a month or so ago Howard changed the name of his report back to "Ruff Times." Is Howard trying to tell us something?

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Words to Make Us Cringe Dept: Alan Greenspan, former chief economic adviser to President Ford states that the new tax bill probably contains "10 or 20 major mistakes" that for the sake of the economy or fairness will have to be rectified with additional legislation. "The trouble is," he added, "I don't know where they are. Nobody does."

London's Big Bang is an accomplished fact. London has deregulated its markets, and London has become one big financial supermarket with firms now allowed to do brokerage, banking, underwriting, the works. New York and Tokyo are moving in the same direction. The net result is going to be a one–world market of securities. A further result is going to be huge masses of capital moving with explosive speed from one market to the next. Capital is going to roar from the US to Japan, from Spain to Holland, all in the time it takes a computer to punch out the buy and sell orders. The result (in my opinion) will be bigger and more powerful bull and bear markets. Money is going to go international, and money is going to go where the profit potentials are -- and the money is going to move -- FAST.

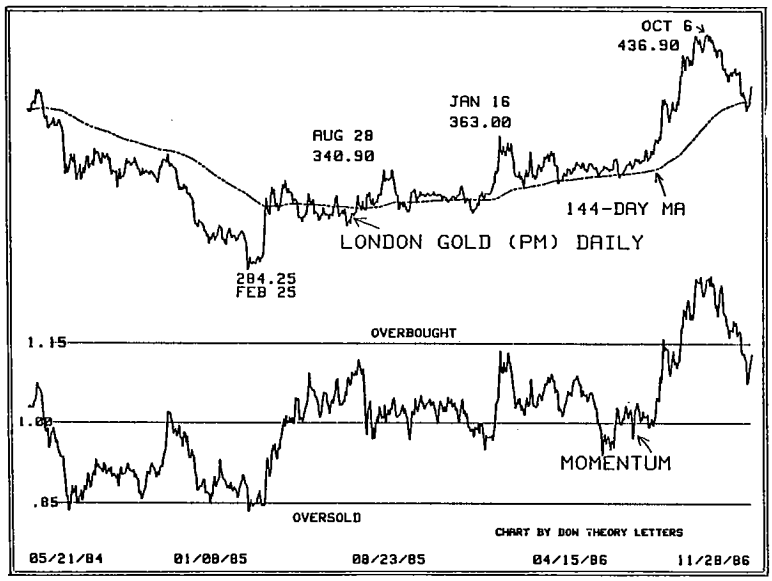
PRECIOUS METALS: What is there about gold that makes people crazy? Nobody seems to be able to discuss gold (or silver or platinum, for that matter) with any degree of equanimity. You're either a gold-bug or a gold–hater. Why not look at the metal sans emotions. The simple fact is that gold started 1986 (second London fix) at 326.30. Gold is now at 400 so the metal is up 74 points or 22.6% since January 1.

Now there's nothing in the world wrong with a 22.6% increase in less than a year. But that doesn't satisfy the gold nuts. They want 100%, so they spend their time guessing wildly at next year's prices — "gold will hit 500 by January" or "gold will be 1000 by 1989." On the other side, the gold-phobes insist that gold and inflation (or both) are dead, and we can therefore look for "$150 to $200 gold by the end of the decade." Guesses, crystal balls, hopes, fears -- and all worthless.

Furthermore, I don't want any part of the great gold guessing game. I buy gold because I want to own a certain amount of real money. I want diversification into something I don't have to worry about, and gold is just that. Let gold go to 300, I'll receive more Krugerrands for my monthly fixed-dollar purchase (that's right, last week I did buy more Krugerrands). Or let gold go to 600, my gold will be worth 54% more than it is today. I just have a policy of buying a fixed-dollar amount of gold coins each month, and I wish all my subscribers would do the same thing.

You ask, "Russell, what will we do with our gold?" That's easy. As far as I'm concerned, given the way things are going in the world today, I'd plan to hang on to your gold until you die -- leave it to your kids in your will, or gift it to your wife or grandchildren or lover. Gold should be part of your estate. A thousand years from now the dollar and IBM will be museum pieces -- but there will still be money, and it will be called gold.

Consider this: the gold coins of the Romans are just as good today (actually, they're worth far more) as they were when they were minted in the pre-Christian era. That's the value of gold in a nutshell. It's money. Gold is mentioned repeatedly in the Bible, it's



a synonym for that which is good. Men have died for it. Gold has never, ever, gone out of fashion or become obsolete.

And what's particularly interesting is that gold is now in a bull market — but a bull market in its early stages.

Turning to my daily gold chart, note that gold has come down to meet its 144-day (exponential) moving average. The MA now stands at 387. At the same time gold has been working off its over–bought status, although, as you can see, gold is still far from being over-sold. Technically, the thing to watch now is whether gold can hold ABOVE its moving average and whether the MA can continue rising (note that the MA has been rising for the past year).

LATE NOTES: In the last Letter I stated that the stock market (i.e., the majority of issues as measured by the A-D ratio) was in a corrective mode, a correction that began on November 14. I further stated that if the D-J Industrial and Transportation Averages could manage to HOLD while the A-D corrected, that would be a bullish indication. What happened? Between November 14 and November 28 the A-D ratio lost about half a point, but the Dow actually GAINED over 40 points. Thus, the majority of issues (as measured by the A-D ratio) could be correcting (even going oversold) while the Dow was actually gaining. Now if you're a bull, you can't ask for better action than that!

And I continue to get subtle readings — but readings which underscore the fact that this is a primary bull market. Here they are: the D-J Industrial Average closed on November 28 at its highest weekend (Friday) close in history --1914.23. That same day, November 28, saw the D-J 65 Stock Average close at a new historic high of 754.71. On the same day the D-J 20 Bond Average closed at a new six-year high of 92.81. Finally, on November 28 my PTI recorded at a new bull market high of 2470. And perhaps most bullish of all, the weekly negative volume index (see Letter 950 for explanation) closed the week ending November 28 at a new bull market high.

All of this is indicative of a primary bull market. And if it's a bull market (which my studies convince me that it is), then it's ONLY A MATTER OF TIME before new highs are seen all around (i.e., in the major averages and in the great majority of stocks). Reference point: the 144-day (exponential) moving average of the Dow now stands at 1811.

NEXT MAILING: Dec. 17